

As part of the individual refund claim, a U.S. holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of its last filed United States federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the holder's name, Social Security number or Employer Identification number, tax return form number, and tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the U.S. holder, which then must submit the certification with its claim for refund.

Refunds under the Treaty are not available in respect of shares or ADSs held in connection with a permanent establishment or fixed base in Germany.

Capital Gains

Under the Treaty, a U.S. holder will not be subject to German capital gains tax in respect of a sale or other disposition of shares or ADSs unless the shares or ADSs were held in connection with a permanent establishment or fixed base in Germany.

Gain or loss realized by a U.S. holder on the sale or disposition of shares or ADSs will be capital gain or loss if the shares or ADSs were held as capital assets, and will be long-term gain or loss if the shares or ADSs were held for more than one year. The net amount of long-term capital gain realized by an individual holder generally is subject to taxation at a maximum rate of 20 percent. A U.S. holder's ability to offset capital losses against ordinary income is subject to limitations. Deposits and withdrawals of shares in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Inheritance and Gift Tax

Under the current estate, inheritance and gift tax treaty between the United States and Germany (the "Estate Tax Treaty"), a transfer of shares or ADSs by gift or by reason of the death of a U.S. holder generally will not be subject to German gift or inheritance tax unless the donor or transferor, or the heir, donee or other beneficiary, is domiciled in Germany for purposes of the Estate Tax Treaty at the time gift was made, or at the time of the donor's or transferor's death, or the shares or ADSs were held in connection with a permanent establishment or fixed base in Germany.

The Estate Tax Treaty provides a credit against United States federal estate and gift tax liability for the amount of inheritance and gift tax paid in Germany, subject to certain limitations, in a case where shares or ADSs are subject to German inheritance or gift tax and United States federal estate or gift tax.

Information Reporting and Backup Withholding

Dividends on shares or ADSs, and payments of the proceeds of a sale of shares or ADSs paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31 percent rate unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

ITEM 8—SELECTED FINANCIAL AND STATISTICAL DATA

Financial Data

The information set forth under the heading "Financial data of the Deutsche Telekom Group at a glance" on page IV in the 1999 Annual Report is incorporated herein by reference. The selected financial data incorporated by reference herein should be read in conjunction with the consolidated financial statements and

the notes thereto of Deutsche Telekom in the 1999 Annual Report, which statements and notes are incorporated herein by reference below. Unless otherwise indicated, all amounts are in accordance with German GAAP.

The selected financial data as of December 31, 1999, December 31, 1998, December 31, 1997, December 31, 1996, and December 31, 1995, and for each of the years in the five-year period ended December 31, 1999, have been derived from, and are qualified by reference to, the audited consolidated financial statements for those years.

German GAAP differ in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom, see note 36 to the audited consolidated financial statements.

Statistical Data

	Year ended December 31,				
	1999	1998	1997	1996	1995
<i>Average number (in millions, unless otherwise indicated)</i>					
Standard telephone access lines	35.3	37.0	38.1	39.1	38.7
ISDN channels(1)	11.7	8.7	6.2	3.9	2.2
Total number of channels	47.0	45.7	44.3	43.0	40.9
Public telephones	0.1	0.2	0.2	0.2	0.2
Mobile telephone subscribers	7.2	4.6	3.2	2.4	1.8
Paging subscribers	0.7	0.8	1.0	0.9	0.7
Cable subscribers(2)	17.8	17.5	17.0	16.3	15.2
T-Online subscribers	3.3	2.3	1.7	1.2	0.8
Domestic calls (billions)	50.6	52.7	52.7	50.7	52.3(3)
Outgoing international traffic (millions of minutes)(4)	3,864	4,711	4,813	4,761	5,238
Incoming international traffic (millions of minutes)	6,248	6,036	5,618(3)	4,890(3)	4,215
Channels in service per employee	268	246	225	207	186

- (1) Each basic access line provides two ISDN channels, each primary access line provides 30 ISDN channels.
 (2) Includes households connected through private cable operators. In 1999, 5.1 million households were connected directly to Deutsche Telekom.
 (3) Restated.
 (4) Estimated.

Dividends

The following table sets forth the annual dividends paid per share with respect to each of the financial years indicated:

Year Ended December 31,	Dividend Paid per Ordinary Share	
	DM	US\$(1)
1996	0.60	0.35
1997	1.20	0.68
1998	1.20	0.64

- (1) Dividend amounts have been translated into dollars at the Noon Buying Rate for the relevant dividend payment date, which occurred during the second quarter of the following year.

Shareholders determine the declaration, amount and timing of dividends in respect of each fiscal year at their annual general meeting in the following year, upon the joint recommendation of the Board of Management and the Supervisory Board. As long as the Federal Republic and KfW own a majority of Deutsche Telekom's voting share capital, they will have the power to control most decisions taken at shareholders' meetings, including the approval of proposed dividend payments. See "Item 4 - Control of Registrant". The Company may declare and pay dividends only from unappropriated net income (*Bilanzgewinn*) of Deutsche Telekom AG, as adjusted to reflect losses or gains carried over from prior years as well as transfers to or from retained earnings. Certain

reserves (*Rücklagen*) must be made and deducted in calculating unappropriated net income available for distribution as dividends. For further information relevant to the payment of dividends by Deutsche Telekom AG, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity—Net Cash Provided by (Used For) Financing Activities".

The payment of future dividends depends on Deutsche Telekom's earnings, its financial condition and other factors, including cash requirements, the future prospects of Deutsche Telekom, and tax, regulatory and other legal considerations. Although Deutsche Telekom expects to pay annual dividends on its shares, you should not assume that any dividend will actually be paid or make any assumption about the amount which will be paid in any given year. To the extent necessary to implement Deutsche Telekom's dividend policy, Deutsche Telekom will consider drawing upon its retained earnings. The Board of Management has recommended a dividend allocation in respect of 1999, which would be payable in 2000, of approximately EUR 1.9 billion, or EUR 0.62 per share (assuming about 3.03 billion shares outstanding). Dividends paid will be subject to German withholding tax. For further information on German withholding tax and related United States refund procedures, see "Taxation".

ITEM 9—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the annual consolidated financial statements, including the notes to those financial statements. Those financial statements have been prepared in accordance with German GAAP, which differ in certain significant respects from U.S. GAAP. For a discussion of the principal differences between German GAAP and U.S. GAAP as they relate to Deutsche Telekom and a reconciliation of net income and total shareholders' equity to U.S. GAAP, see "—German GAAP Compared to U.S. GAAP" and note 36 to the consolidated financial statements.

Effective January 1, 1999, Germany and ten other member states of the European Union adopted the euro as their common currency. Accordingly, amounts in euro appearing in this discussion for periods after December 31, 1998 have been translated from Deutsche Marks at the official fixed conversion rate of EUR 1.00 = DM 1.95583. For consistency of presentation, Deutsche Telekom has translated amounts in Deutsche Marks for prior periods into euros at this rate. The translation of all Deutsche Mark amounts into euros at the official fixed conversion rate does not affect the trends discussed below. However, the amounts appearing below for dates or periods prior to January 1, 1999 will not be comparable to the amounts reported by other companies reporting in euros that were restated from currencies other than the Deutsche Mark.

1999 Performance Summary

In the second year following the full liberalization of the German telecommunications market, Deutsche Telekom's consolidated revenue remained stable while consolidated net income declined significantly. Consolidated revenue increased by 0.9 percent to EUR 35.5 billion in 1999, while consolidated net income decreased by 44.1 percent to EUR 1.3 billion in 1999. The decrease in consolidated net income was largely due to a decrease of approximately 53 percent in income before taxes from the network communications segment and a decrease in income before taxes from the international business segment, the effects of which were partially offset by an increase in income before taxes from the mobile communications segment.

Deutsche Telekom again confronted intense competition in its fixed telephone network communications business area, principally on the basis of price, for regional, long distance and international calls. As a result of tariff reductions and the loss of market share, revenues declined by 18.5 percent in the network communications business area, despite growth in access revenues resulting from a substantial increase in the number of ISDN channels and growth in revenues from calls to mobile networks and other services. However, revenue growth in the areas of data communications and carrier services combined with the positive development in revenue from mobile network communications and international activities, as well as an increasing revenue contribution by

T-Online, more than offset the decline in consolidated revenues from telephone network communications. Revenues from international activities increased substantially in 1999, in large part as a result of the first-time consolidation of revenues of businesses outside Germany in which Deutsche Telekom acquired controlling interests in 1999, notably One 2 One in the UK and max.mobil. in Austria. Consolidated revenues from international activities increased from EUR 1.4 billion in 1998 to EUR 3.0 billion in 1999.

Overall costs of the Deutsche Telekom group, before taking into account the effect of acquisitions in 1999, remained relatively stable from 1998 to 1999. Acquisitions in 1999, however, principally One 2 One and max.mobil., gave rise to a substantial increase in goods and services purchased, which was related to interconnection with other telecommunication carrier networks, and to increased purchases of terminal equipment for resale, which were mainly mobile handsets. Personnel costs remained stable, as the effects of further reductions in the workforce were offset by an increase in personnel cost per employee. Net interest expense decreased as Deutsche Telekom further reduced its indebtedness on an average basis for the year. As of December 31, 1999, however, financial liabilities increased compared to the prior year end due to the assumption of debt primarily related to the acquisition of One 2 One in the second half of 1999. A lengthening of the depreciation periods of outside plant and equipment and the effect of lower levels of capital expenditures in 1997 and 1998 led to reduced depreciation and amortization in 1999, although this effect was partially offset by goodwill amortization arising from the acquisitions made in 1999.

Dynamics Affecting Deutsche Telekom's Business

Deutsche Telekom's business has been affected in recent years by a number of important trends. Telephony and data traffic in Germany have been positively influenced by societal and macro-economic factors, such as the globalization of trade and the increasing integration of European markets, a trend toward the decentralization of businesses, the growth of the service sector in Germany and the greater mobility of the population. The rapidly expanding market for mobile and Internet communications, steady growth in data transmissions, and the advent of new technologies are reshaping the business of telecommunications.

The telecommunications sector has also undergone a radical regulatory transformation. Following a period of partial and gradual liberalization in the early 1990s, the enactment of the German Telecommunications Act (*Telekommunikationsgesetz*) in 1996 and the ordinances implemented since then have made Germany one of the most open and competitive telecommunications markets in the world. The last of Deutsche Telekom's monopoly services—public fixed network voice telephony—was opened to competition in 1998. At the end of 1999, there were more than 250 business enterprises that had been granted more than 600 licenses for different telecommunications services in Germany.

Under the Telecommunications Act, Deutsche Telekom is viewed by the relevant regulatory authorities as dominant in the market for public fixed network voice telephony services and in certain other markets. Although Deutsche Telekom is actively encouraging regulatory re-evaluation of the markets in which Deutsche Telekom is viewed as dominant, this status may not change in significant markets for some time to come. As a result, unlike the tariffs of its competitors, many of Deutsche Telekom's tariffs are and may remain subject to regulation. During the past two years, a number of regulatory controversies were resolved in ways which did not always satisfy Deutsche Telekom or its competitors, but which did bring in some cases greater certainty to the telecommunications business environment. For a discussion of pending regulatory decisions and related litigation, see "Description of Business—Regulation" and "Legal Proceedings".

Network Communications. Domestic and international public fixed network voice telephony, which was opened to full competition on January 1, 1998, continued to be Deutsche Telekom's most significant service in 1999 in terms of contribution to consolidated revenues and consolidated profits.

The introduction of full competition in the telephone market has inevitably resulted in loss of market share for Deutsche Telekom. According to official publications of the Regulatory Authority, Deutsche Telekom had an 80 percent share of the overall German telecommunications market at the end of 1999, as measured in terms of minute volume, which reflects a market share of 60 percent in the combined markets for domestic long-distance calls, international long-distance calls and calls to mobile networks. Although the overall fixed-line telephony market in Germany grew in 1999 in terms of minutes, traffic volume on Deutsche Telekom's fixed network that gave rise to revenues shown under "network communications" decreased. This resulted primarily from further market share gains by Deutsche Telekom's competitors, particularly in the areas of regional, national and international long-distance calls. The minutes associated with revenues for many calls to T-Online, which were shown under "network communications" in 1998 but under "other services" in 1999, also contributed to the decline traffic volume that gave rise to revenues shown under "network communications".

Deutsche Telekom's competitors in this area include international telecommunications carriers and start-up domestic companies, as well as industrial conglomerates, utility companies and municipal enterprises that have diversified into telecommunications. In 1999, Deutsche Telekom's competitors continued to place particular

emphasis on price competition in the area of long-distance and international calls. On the basis of interconnection rates fixed by the Regulatory Authority, numerous competitors are able to compete with Deutsche Telekom with minimal or modest investments in network infrastructure and with prices that often undercut Deutsche Telekom's pricing. The decision by the Regulatory Authority to further reduce interconnection rates for 2000 and 2001 is expected to lead to further competition in this area. For further information concerning interconnection rates, see "Description of Business—Regulation—Special Network Access and Interconnection".

Deutsche Telekom as yet has not lost significant market share in the market for local calls. Deutsche Telekom is required, however, to provide competitors with unbundled access to its subscriber access lines, and the Regulatory Authority has set a monthly tariff for this unbundled access that is substantially lower than Deutsche Telekom had sought in its tariff application. In addition, in 1999, the Regulatory Authority granted licenses to competitors for a technology that permits competitors to establish a direct wireless connection from the telephone network to the telephone end-user. Deutsche Telekom therefore expects that it will face increasing competition on the local network level in the future.

Deutsche Telekom has introduced several tariff reductions during the past three years to address competitive challenges and, in some instances, to meet regulatory requirements imposed by a price cap regime applicable to the tariffs for Deutsche Telekom's public fixed-line voice telephony services. In March 1998, Deutsche Telekom reduced tariffs for national and international long-distance calls, as well as special rebates and optional tariffs. Deutsche Telekom implemented lower tariffs for domestic long-distance calls in January 1999 and in April 1999 and introduced new reduced tariffs for international calls to 22 countries, as well as reduced tariffs for optional tariff programs and special tariffs for business customers, in July 1999. Further reductions in fixed-network tariffs and additional special tariffs were introduced on February 1 and March 1, 2000 to meet the ongoing competitive challenge in this business area. Deutsche Telekom is aiming to offset partially the reduction in revenues resulting from these tariff measures with higher access charges, particularly from T-ISDN and T-DSL.

Mobile Communications. As in prior years, the German mobile communications market exhibited strong growth in 1999. New products and tariffs enabled new customer groups to have access to this market. At the end of 1999, there were over 23.2 million mobile phone users registered in Germany, representing an increase of 72 percent over the prior year. As a result of this very strong growth, consolidated revenues of the mobile communications segment increased by 28 percent from 1998. In 1999, new mobile data communications services, such as "short message services," also began to contribute to revenue growth. Despite this growth, however, the mobile penetration rate of 28.3 percent in Germany at year-end 1999 was relatively low in comparison to other Western European countries. Deutsche Telekom therefore believes that the market holds considerable potential for further expansion. Customers benefited in 1999 from intense competition, which resulted in the implementation of new tariff reductions and special offers. Deutsche Telekom has reorganized a substantial portion of its European mobile telecommunications business into a new holding company, T-Mobile International.

Data Communications. The market for data communications has been open to competition for several years and has experienced strong growth during that time, particularly in terms of data traffic volume. This growth in traffic volume is reflected in the fact that revenues of Deutsche Telekom's data communications business area increased by 11.5 percent from 1998 to 1999 despite fierce price competition. Recent developments show a trend toward network services and corporate/managed networks. The majority of revenues from data communications now comes from managed networks, which combine, depending on the customer's needs, all data communications products from basic data transport to higher value-added services such as Internet Protocol (IP) and Asynchronous Transfer Mode (ATM) transport. Deutsche Telekom has increased its sales in the data communications area with its broad portfolio of high quality services and tailored systems solutions which it offers through its technologically advanced network. Deutsche Telekom's goal is to offer customized information and communications solutions to customers in need of integrated services. Deutsche Telekom's recently announced strategic engagement in debis Systemhaus GmbH should enhance Deutsche Telekom's competitive position in this area.

Online and Internet. The innovative market for online and Internet services experienced another year of strong growth in 1999. T-Online, Deutsche Telekom's online and Internet service, increased its subscriber base by 53.8 percent to 4.2 million customers at year end 1999 and thus remained the largest online service provider in both Germany and Europe. As a result of this growth, T-Online contributed approximately EUR 160 million

to revenue growth in Deutsche Telekom's "other services" business area in 1999. The challenge for T-Online, which has the vast majority of its customers in Germany, will be to maintain its market leadership within Germany in the face of competition from other providers, while at the same time developing non-German language services and building its international franchise. T-Online took an important step toward maintaining its market leadership in Germany by announcing the formation of an online banking strategic relationship and cross-shareholding with comdirect, a subsidiary of Commerzbank, in February 2000. The introduction of T-Online services in Austria in December 1999 in cooperation with max.mobil, and the pending acquisition of Club Internet, a leading French internet service provider, represent the first steps toward building T-Online's international franchise. Deutsche Telekom currently is exploring further opportunities to expand T-Online service outside Germany.

Carrier Services. In the second year after full liberalization of the market for voice telephony, the terms under which Deutsche Telekom offers competitors access to its network generally remain subject to supervision by the Regulatory Authority. In December 1999, however, the Regulatory Authority determined that Deutsche Telekom is no longer dominant in the market for interconnection to foreign countries. In the area of national interconnection services, the Regulatory Authority approved new interconnection tariffs which became effective on January 1, 2000. For further information on regulation of this business area, see "Description of Business—Carrier Services" and "Description of Business—Regulation—Special Network Access and Interconnection—Fixed-Fixed Interconnection."

Broadcasting and Broadband Cable. Revenues in the area of broadcasting and broadband cable in 1999 were relatively stable as compared to 1998. The tariffs that currently apply to Deutsche Telekom's broadcasting and broadband cable activities were approved by the Regulatory Authority in 1998 with effect as of November 1997.

Throughout 1999, Deutsche Telekom explored opportunities for the sale to third-party investors of equity interests in the regional cable companies it plans to form during 2000 to hold the core of its cable operations and related non-current assets. In February and March, 2000 Deutsche Telekom reached its first agreements for sales of majority interests in two of these companies. For further information on Deutsche Telekom's sale of interests in its cable operations, see "Description of Business—Broadcasting/Broadband Cable."

International Business. Competition in the telecommunications industry increasingly takes place on an international level, as network operators seek economies of scale. International acquisitions significantly expanded the geographic scope of Deutsche Telekom's activities in 1999. In the area of mobile communications, Deutsche Telekom increased its stake in the Austrian mobile communications company max.mobil, to 91 percent of the outstanding shares, acquired all of the outstanding shares of the British mobile carrier One 2 One and made further investments in mobile communications companies in Eastern Europe. Although their subscriber bases are smaller than those of T-Mobil, both max.mobil, and One 2 One are experiencing even stronger subscriber growth and revenue growth than T-Mobil. For further information on these acquisitions and investments, see "Description of Business—International—International Acquisitions in 1999." Consolidation of the revenues of max.mobil, and One 2 One, which are reflected in revenues of Deutsche Telekom's "international" business area, contributed significantly to increased revenues in 1999, while goodwill amortization and other costs relating to these companies contributed substantially to increased costs.

In the field of data communications and network access, the acquisition of SIRIS, a leading alternative French fixed-network operator, and the acquisition of a significant equity interest in HT – Hrvatske telekomunikacije d.d., the largest telecommunications company in Croatia, contributed to the expansion of Deutsche Telekom's European presence.

Technology

For the longer term, rapid technological changes in telecommunications and information technology will continue to have a profound effect on the way Deutsche Telekom does business and give rise to new competitive challenges since the traditional businesses of telecommunications, information technology, media, entertainment and security are increasingly converging. Technological advances have increased the capacity and bandwidth of telecommunications networks and led to the rise of a number of alternatives to fixed network transmission. Multiple forms of mobile communications, wireless transmission and Internet technology and their declining costs are certain to increase the sources of competition faced by Deutsche Telekom's traditional business. They also open new opportunities arising from the convergence of information and communications

technologies, where Deutsche Telekom's advanced nationwide networks allow it to offer sophisticated services based on ISDN or ADSL technologies, IP technology or telematics solutions.

Costs

During 1999, Deutsche Telekom continued to pursue the cost reduction goals that it set for itself at the time of its 1996 initial public offering. As a result of the acquisition of One 2 One and of the majority interest in max.mobil. in 1999, however, indebtedness of the Deutsche Telekom group and the number of employees of the group increased, which can be expected to exert an upward influence on interest expense and personnel costs in future years. Deutsche Telekom will, however, continue in 2000 its program to reduce employee headcount and personnel cost in the companies that were part of the Deutsche Telekom group at year-end 1994.

Deutsche Telekom determined several years ago that its number of employees exceeded the number needed to operate in a competitive environment. Accordingly, Deutsche Telekom announced in 1995 its intention to reduce its workforce by a total of 60,000 full-time equivalent employees (excluding employees added through changes in the composition of the consolidated Deutsche Telekom group) by the end of the year 2000 and introduced a workforce reduction program. As of December 31, 1999, the companies that were part of the consolidated Deutsche Telekom group at the beginning of 1995 had 172,233 employees. From the start of this workforce reduction program to December 31, 1999, Deutsche Telekom had reduced the number of employees of those companies by 57,200, with a reduction of 6,900 in 1999 alone. Deutsche Telekom estimates that it will be able to reach its announced goal before the end of the year 2000. The workforce reduction program relied on natural attrition, early retirement and other measures to achieve its objective. Deutsche Telekom has extended through 2004 an agreement with labor unions that Deutsche Telekom will refrain from involuntary layoffs for business reasons.

Personnel costs increased by 0.4 percent in 1999, largely due to the effect of the addition of employees of companies first consolidated in 1999 and due to a slight increase in personnel costs per employee in Germany. For further information on the development of Deutsche Telekom's personnel costs, see "—Results of Operations—Total Operating Costs and Expenses—Personnel Costs".

To reduce interest expense and strengthen its capital structure, Deutsche Telekom reduced its outstanding net indebtedness by 34 percent from EUR 64 billion at January 1, 1995 to EUR 42 billion at December 31, 1999 through scheduled and early repayment of indebtedness. Net indebtedness may rise in the future, however, as a result of Deutsche Telekom's growth strategy. For further information relating to interest expense, see "—Results of Operations—Financial Income (Expense), Net—Net Interest Expense".

Depreciation and amortization increased in 1997 and decreased in 1998 and 1999. The increase in 1997 was primarily a consequence of the accelerated digitization of Deutsche Telekom's exchanges in the Federal States comprising the former West Germany and the build-out of Deutsche Telekom's network in eastern Germany, both of which were completed in December 1997. As expected, depreciation started to decline in 1998 as a result of the full depreciation of Deutsche Telekom's analog exchanges and transmission equipment. The decrease in depreciation and amortization in 1999 resulted from a lengthening of the useful lives of outside plant network, the effect of which was partially offset by the amortization of goodwill relating to companies acquired in 1999. Amortization of goodwill for One 2 One will be higher in 2000 than in 1999, as One 2 One was part of the consolidated Deutsche Telekom group only during the fourth quarter of 1999. In addition, acquisitions made during 2000 (such as T-Online's announced acquisitions) will contribute to increased goodwill amortization in 2000. Future acquisitions accounted for using the purchase method of accounting may result in increased goodwill amortization over coming years, which could reduce net earnings or lead to net losses. For further information relating to depreciation and amortization, see "—Results of Operations—Total Operating Costs and Expenses—Depreciation and Amortization".

Other cost items, such as costs of goods and services purchased and other operating expenses, have gained increasing significance in Deutsche Telekom's statement of income. Some of these cost items relate closely to developments in the fully liberalized telecommunications market as Deutsche Telekom increasingly incurs costs for the termination of calls on the networks of other carriers, especially in the growing mobile market.

Real Estate

Due to the consolidation of various operations, the complete digitization of its network and ongoing workforce reductions, a portion of Deutsche Telekom's owned and leased properties will not be required in its core business in the future. Over time, this should allow Deutsche Telekom to reduce its net real estate occupancy costs by reducing the amount of property leased from third parties upon termination of existing leases and relocating operations from high-cost urban centers to outlying areas. Deutsche Telekom expects to consider selling or leasing surplus owned properties, including properties with pre-installed telecommunications systems, on a case-by-case basis.

Deutsche Telekom's real estate was revalued at January 1, 1995 at fair market value as described in the notes to the Consolidated Financial Statements under "Summary of significant accounting policies—Accounting and valuation". As of December 31, 1999, Deutsche Telekom's real estate had an aggregate book value of EUR 17.2 billion. In 1997, Deutsche Telekom established a EUR 205 million reserve in respect of potential losses associated with the disposition of properties no longer used in its businesses. In 1999, this reserve was increased by EUR 21 million.

In view of the size of Deutsche Telekom's real estate portfolio and its expectation of a decline in its need for some properties over time, the development of the German real estate market, as well as the ongoing evaluation of the need for individual properties for Deutsche Telekom's business, will be among a number of significant factors which may affect the results of Deutsche Telekom in coming years. Upon any sale of real estate, losses and gains will be realized accordingly. For further information relating to Deutsche Telekom's property, see "Description of Property."

Income before Taxes by Business Segment

In 1998, Deutsche Telekom started reporting its business segment revenue, operating income and net asset information on the basis of the segment reporting requirements of Statement of Financial Accounting Standard (SFAS) No. 131. In 1999, a year on year comparison has become available for the first time. Due to changes in Deutsche Telekom's internal organization and the reengineering of its management information and accounting systems, the generation of segment information for periods prior to 1998 would be impracticable.

	Income before Tax		
	Year ended December 31, (1)		
	1999	1998	1999/1998
	(millions of euro)		(% change)
Network communications	2,276	4,796	(52.5)
Mobile communications	1,033	560	84.5
Carrier services	440	589	(25.3)
Data communications	104	(61)	270.5
Terminal equipment	19	(114)	116.7
Broadcasting and broadband cable	(86)	(329)	73.9
Value-added services	(152)	(182)	16.5
International	(339)	200	(269.5)
Other	(408)	(384)	(6.3)
Adjustment	57	25	128.0
Deutsche Telekom group	2,944	5,100	(42.3)

- (1) The income before tax figures for 1998 differ from the figures presented in Deutsche Telekom's Annual Report on Form 20-F for 1998 in that net interest expense for 1998 has been restated to reflect the 1999 method of reporting. Overall a total of EUR 215 million has been reclassified from net interest expense of "Other" into other segments.

The results in network communications were influenced by a decline in market share and by reduced tariffs, both of which contributed to a substantial decline in revenues. Cost reductions attributable to the network communications segment were not sufficient to offset the effect of this decline in revenue on profits in this area.

As in 1998, the improvement in mobile communications was based primarily on strong growth in the mobile subscriber base, which was only partially offset by a decline in revenues per minute.

Income before taxes of the carrier services business area decreased to EUR 440 million in 1999, despite substantially increased revenues in this business area. This development is primarily a result of higher depreciation and other costs relating to increased traffic and increased revenues.

The turnaround in data communications resulted primarily from an increase of EUR 292 million in consolidated revenues of this business area.

The attainment of profitability in the terminal equipment segment resulted from further streamlining of its product portfolio and from other measures taken to enhance efficiency. This segment is characterized by heavy competition and low margins. Deutsche Telekom believes that terminal equipment supply helps bind it to its customers.

The improvement in the loss position of broadcasting and broadband cable was primarily attributable to broadband cable activities and resulted largely from both cost reductions and revenue increases. The increase in revenue resulted from the growth in the number of cable subscribers, improvements in billing procedures and the gradual elimination during 1998 of the effects of prepayments made by customers prior to the introduction of higher cable subscription fees in November 1997. See "—Net Revenues—Broadcasting and Broadband Cable."

The reduction in losses in the value added services area is mainly attributable to further adjustments of the number and location of Deutsche Telekom's public telephones.

The international segment consists principally of the Hungarian telecommunications provider MATÁV and, for the first time in 1999, the mobile communications companies One 2 One and max.mobil. Losses in the international business area in 1999 were primarily attributable to operating losses of max.mobil. and One 2 One and to increased goodwill amortization and interest expense that resulted from the first time consolidation of these companies. These factors more than offset continued growth in MATÁV's profits.

"Other segments" includes the "other services" business area, which consists of multimedia and ancillary activities of Deutsche Telekom. "Other segments" also reflects results from associated and related companies. While the data communications and carrier services segments were shown under the category "other segments" in 1998, these segments are being presented separately in 1999, and the 1998 figures have been adjusted to accommodate this change. For further information with regard to changes in segment reporting, see Note 39 to the consolidated financial statements.

In 1999, the increase in the loss of other segments resulted from an increase in write downs of financial assets, principally relating to T-Mobil's investment in ICO Global Communications Ltd., and to a small extent from losses of T-Online, the effects of which were partially offset by a decrease in Deutsche Telekom's share of losses from associated and related companies and from increased fees for billing services. The improvement in losses attributable to associated companies reflected continued negative results related to Global One, an improvement in share of losses from Deutsche Telekom's Asian ventures and Deutsche Telekom's share of profits in the Russian telecommunications company MTS. For further information relating to losses from associated companies, see "—Results of Operations—Financial Income (Expense), Net—Income (Loss) from Financial Activities".

Despite the negative effects of price decreases, the network communications segment continued in 1999 to be the principal contributor to Deutsche Telekom's income before taxes, followed by mobile communications and carrier services. The data communications and terminal equipment segments, which had been loss-making in 1998, made a modest contribution to profits in 1999. The broadcasting and broadband cable, value-added services and international activities segments, as well as other segments, which include multimedia activities and results of international associated and related companies, showed negative results in 1999.

Outlook

Deutsche Telekom believes that the broad trends that influenced the German telecommunications market in 1998 and 1999 will continue in 2000, with traffic volume in the overall market displaying growth and price levels continuing to decline. The governmentally mandated reduction in interconnection charges that took effect at the beginning of the year 2000, in particular, is expected to contribute to further declines in prices. Deutsche Telekom expects the number of service providers in Germany to decline, with some initial

consolidation moves already having occurred over the past twelve months. Deutsche Telekom believes that its strengths – such as comprehensive and innovative offerings, system solutions expertise, quality and service – will become increasingly evident as the market consolidates.

Deutsche Telekom is focusing its expansion efforts on the four strategic pillars of its growth strategy: access services, mobile communications, data /IP/systems and consumer Internet services. Deutsche Telekom plans to pursue growth aggressively in these areas through acquisitions, internal expansion, strategic engagements and other measures. In this regard, Deutsche Telekom actively pursues opportunities throughout the world, but with an emphasis on Europe and the United States. Deutsche Telekom has engaged, and may continue to engage from time to time, in discussions with other parties that may lead to one or more substantial acquisitions or business combinations.

The strategies and expectations referred to in this outlook discussion may be strongly influenced or changed by shifts in market conditions, new initiatives undertaken by Deutsche Telekom and other factors. Please refer to "Forward-Looking Statements" for a description of some of the factors relevant to this discussion and other forward-looking statements in this report. Deutsche Telekom cannot guarantee that the strategies and expectations referred to in this discussion will come to fruition.

Revenues

As in 1999, revenues from Deutsche Telekom's network communications business will be strongly influenced by price reductions during 2000. In February 2000, Deutsche Telekom introduced major price cuts for international calls to over 50 countries and from the fixed network to the T-D1 mobile network. These were followed on March 1, 2000 by reductions in prices for regional and long-distance calls and an extension of the off-peak period. Other price and service campaigns may be launched during the course of the year. The principal aim of these measures is to stabilize Deutsche Telekom's market share in the domestic network communications market. Deutsche Telekom expects that the anticipated decline in revenues from price reductions in 2000 will be offset to a limited extent by higher revenues from initial connection fees and monthly rental charges, particularly for T-ISDN and T-DSL.

Deutsche Telekom aims to compensate for the expected decrease in revenues from network communications resulting from its price reductions with revenue growth from other areas. Revenue growth in the areas of mobile communications and data communications, and to a lesser extent in the online services area, will be important in accomplishing this aim.

The transfer of a major portion of the cable business of Deutsche Telekom AG into a separate subsidiary at the beginning of 1999 and the establishment of nine regional subsidiaries, commencing on July 1, 2000, have laid the foundation for the planned sale of majority interests on a regional basis in the cable business. In February and March 2000, Deutsche Telekom reached agreements for the sale of majority interests in the subsidiaries that will operate in the regions of North-Rhine-Westphalia and Hesse. Deutsche Telekom is proceeding with plans to sell majority stakes in additional regional companies in 2000 and 2001. As a result of these sales, revenues from the affected subsidiaries will no longer be fully consolidated with those of Deutsche Telekom.

In 2000, Deutsche Telekom's revenues from international activities should be favorably affected by Deutsche Telekom's international acquisition program. Having sold Global One to France Telecom, Deutsche Telekom will have the freedom to pursue opportunities that were formerly closed to it under contractual arrangements relating to Global One. Deutsche Telekom is determined to pursue the further internationalization of its business in 2000.

Deutsche Telekom believes that, in the absence of unforeseen developments, its overall revenue in the year 2000 will be higher than in 1999, despite the partial loss of revenue from cable activities that are sold. Deutsche Telekom's aim is to have price-driven reductions in revenue in domestic fixed-line telephony compensated for by increases in revenue from Deutsche Telekom's mobile communications, data communications and online services businesses, both as a result of the growth of Deutsche Telekom's existing operations and as a result of acquisitions.

Costs

In view of the expected revenue trends during 2000, Deutsche Telekom will again focus on cost management. Deutsche Telekom expects that its cost of goods and services purchased will increase in 2000, primarily due to an increase in other services purchased. The increase in other services purchased is expected to result principally from costs relating to Deutsche Telekom's expansion in the national and international mobile telephony businesses. Due to falling settlement rates, international network access charges are decreasing, but this development is largely offset by increases in domestic network access charges. Deutsche Telekom's cost of goods and services purchased – for example, from software companies and IT providers – is expected to increase as increasing emphasis is put on activities outside of the traditional voice telephony business. Deutsche Telekom's objective is to keep the growth in the cost of goods and services purchased below the rate of revenue growth through, for example, improvements in purchasing procedures and an increase in the number of goods and services generated in-house.

In the year 2000, Deutsche Telekom will not continue the substantial workforce reductions of the past few years due to the impact of acquisitions and a significant build-up of sales personnel that is planned for 2000. However, a change in payment requirements relating to civil servant pension fund contributions that is scheduled to take effect in 2000 should enable Deutsche Telekom to maintain personnel costs at the 1999 level within the group of companies that were part of the consolidated Deutsche Telekom group at year-end 1999, excluding the effect of the sale of regional cable companies.

Depreciation and amortization in 2000 are expected to increase due to the goodwill amortization relating to acquisitions made in 1999 or 2000. Distinctly higher overall investment volume in 2000, which will include planned investments in the expansion of international networks and is likely to include the purchase of UMTS licenses in several countries, is likely to give rise to increased depreciation in 2000.

In 2000, other operating expenses are expected to be notably higher than in 1999 as a result of increased advertising costs and commission on sales. This is largely the result of expansion in the existing mobile communications business area and the acquisitions made in this business area in 1999.

Deutsche Telekom experienced a decrease in net interest expense in 1999. This was largely due to the reduction of indebtedness on an average basis from 1998 to 1999. Depending on decisions on financing recent and further acquisitions net interest expense may rise significantly in the future.

Income from related and associated companies in 2000 is likely to differ substantially from that of the prior year due to the realignment of Deutsche Telekom's investment portfolio. In 2000, the removal of losses from Global One should have a positive effect. In addition, if matters progress as anticipated, Deutsche Telekom expects that a further source of revenue may result from the sale of interests in the regional cable companies.

Deutsche Telekom does not expect the decline in margins in network communications and the initial losses and amortization of goodwill resulting from new international shareholdings to be fully offset by increased profitability in other business areas in 2000.

Capital Markets Activities

Deutsche Telekom's subsidiary, T-Online International AG, is scheduled to become publicly traded through the issuance and sale of approximately 100 million T-Online shares in mid-April 2000. Deutsche Telekom's mobile telecommunications subsidiary, T-Mobile International AG, may come to the market in the second half of 2000, although a final decision in this regard has not been reached. Deutsche Telekom will retain a controlling interest in each of these two companies.

Kreditanstalt für Wiederaufbau (KfW) has announced that it has engaged a financial advisor to advise it with respect to a disposition of a portion of its holdings of Deutsche Telekom shares. Deutsche Telekom currently expects that this disposition will be accomplished by means of a share offering in June 2000.

In part to enhance the ability of Deutsche Telekom to finance future acquisitions with its own shares, the Board of Management of Deutsche Telekom will present a resolution to create new authorized capital stock at the annual shareholders' meeting in May 2000.

Results of Operations

Net Revenues

Network communications services, which are basically domestic and international public fixed-line network voice telephony services, are the largest contributor to Deutsche Telekom's consolidated net revenues. Deutsche Telekom also obtains revenues from interconnection services for domestic and international network operators, domestic and international services in the field of data communications and systems solutions, and mobile communications services. Broadcasting and broadband cable, the supply and sale of terminal equipment, value-added services, and other ancillary services including multimedia communications services such as T-Online round out the range of products and services offered by Deutsche Telekom. Revenues of Deutsche Telekom's non-German subsidiaries (principally MATAV, max.mobil, and One 2 One) are included under the heading "International" in the revenue presentation appearing below.

The following table shows Deutsche Telekom's net revenues broken down by major business areas and as a percentage of net revenues for the last three years.

	<u>Year ended December 31,</u>					
	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	(millions of euro, except percentages)					
Network communications	16,737	47.2%	20,531	58.4%	21,420	62.1%
Mobile communications	3,919	11.0%	3,061	8.7%	2,573	7.5%
International	2,953	8.3%	1,396	4.0%	1,241	3.6%
Carrier services	2,884	8.1%	1,611	4.6%	1,229	3.5%
Data communications	2,828	8.0%	2,536	7.2%	2,345	6.8%
Broadcasting and broadband cable	1,917	5.4%	1,804	5.1%	1,597	4.6%
Value-added services	1,903	5.4%	2,051	5.9%	2,001	5.8%
Terminal equipment	1,207	3.4%	1,382	3.9%	1,517	4.4%
Other services (including						
Multimedia)	<u>1,122</u>	<u>3.2%</u>	<u>772</u>	<u>2.2%</u>	<u>582</u>	<u>1.7%</u>
Net revenues	<u>35,470</u>	<u>100.0%</u>	<u>35,144</u>	<u>100.0%</u>	<u>34,505</u>	<u>100.0%</u>

The presentation of Deutsche Telekom's revenues generally reflects the organization of Deutsche Telekom's business in 1999. Deutsche Telekom's business was rearranged in some respects during 1999. Data presented for previous years have been restated to reflect the new business structure solely to facilitate year-to-year comparisons. As a consequence of the rearrangements in 1999 and 1998 and a 1997 reorganization, some of the line item information presented in the following discussion is not directly comparable with corresponding line item information contained in the financial statements that were included in Deutsche Telekom's Annual Reports on Form 20-F for 1998 and 1997.

Major changes in the presentation of revenues for 1999 are described below:

- As of January 1, 1999, the amounts billed for other network operators, and the corresponding amounts paid to those operators, are no longer shown under net revenue and goods and services purchased, but are instead disclosed net.
- As of January 1, 1999, the amounts billed at T-Online for content providers, and corresponding amounts paid through to content providers, are no longer shown under net revenues and goods and services purchased, but are instead disclosed net.
- Amounts relating to Deutsche Telekom's communications network subsidiary DeTeLine Deutsche Telekom Kommunikationsnetze GmbH that were shown under "other services" in 1998 are shown under "data communications" in 1999.
- Amounts relating to maintenance services that were shown under "terminal equipment" in 1998 are shown under "other services" in 1999.

Network Communications. Revenues from network communications consist of revenues from domestic telephone communications and from international telephone communications. Domestic telephone communications revenues include initial connection fees and monthly rental charges as well as call charges. Call charges originate from local, regional and domestic long-distance calls, calls to mobile networks and calls to Internet service providers, other than T-Online. Revenues from calls made to T-Online on or after April 1, 1999 in connection with most tariff packages of T-Online are reflected under "other services." International

telephone communications revenues consist of call charges that originate from international long-distance calls. Revenues from network communications are likely to be affected by many influences and trends, as described more fully above under the heading "—Dynamics Affecting Deutsche Telekom's Business".

The following table sets forth the net revenues from telephone network communications services.

	Year ended December 31, (1)			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Initial connection fees, access charges and other network services	6,333	6,136	5,990	3.2	2.4
Call charges					
Local calls	4,058	4,271	4,000	(5.0)	6.8
Domestic long distance calls	2,988	6,372	7,494	(53.1)	(15.0)
International telephone communications	1,405	2,083	2,508	(32.5)	(16.9)
Connection to mobile and others	1,953	1,669	1,428	17.0	16.9
Total network communications.....	16,737	20,531	21,420	(18.5)	(4.2)

(1) Prior year figures have been adjusted to reflect a change in management reporting relating to other network services. Revenues of EUR 2 million for 1998 and EUR 21 million for 1997 are now shown under other services.

Initial Connection Fees, Monthly Rental Charges and Other Network Services. Revenues from initial connection fees, monthly rental charges and other network services are primarily a function of the number and mix of standard telephone and ISDN access lines and the corresponding initial connection fees and monthly rental charges.

The average number of access channels (adjusted to reflect ISDN channels) has risen over the last three years as indicated below.

	Year ended December 31,		
	1999	1998	1997
	(millions)		
..... Average number of access channels	47.0	45.7	44.3

The increase in revenues from initial connection fees, monthly rental charges and other network services in both 1998 and 1999 resulted primarily from growth in the number of access channels. This growth was, however, partially offset by a slight decrease in 1999 in the average monthly access charge per access channel.

Domestic Call Charges. Revenues from call charges are a function of the number of telephone calls, average call duration, the mix of local, regional, and long distance calls as well as the time of the call and the applicable tariffs. In general, domestic telephone traffic is influenced by trends in the German telecommunications market and other market developments as described above under the heading "Dynamics Affecting Deutsche Telekom's Business".

Deutsche Telekom started its second year of competition with major tariff reductions. Deutsche Telekom introduced significant reductions in prices for domestic calls in 1999 in response to intense competition on these markets. As a result, average charges per minute for domestic fixed-line traffic declined by around 33 percent as compared to the average for 1998. Despite Deutsche Telekom's price reductions, intense competition in the domestic long distance and regional areas, conducted primarily on the basis of price, resulted in a 4.5 percent decrease in minutes from domestic calls. The decrease in volume was particularly pronounced in the area of domestic long-distance calls, where minute volume declined by 15.7 percent. As in 1998, customers were able to select competitor carriers either on a call-by-call basis or through carrier preselection. The combination of the decline in average charges per minute and the decline in minutes from domestic traffic resulted in an overall decline of 26.9 percent in revenue from domestic call charges.

In 1998, revenues from domestic call charges were 4.7 percent lower than in 1997, primarily due to tariff cuts and a decrease in the volume of domestic traffic, both of which resulted from increasing competition. The decrease in volume particularly affected domestic long-distance calls, where minute volume fell by 7.1 percent.

In both 1998 and 1999, increased revenues from calls to mobile networks and from connections to online service providers partially offset decreased revenues from other types of calls.

Deutsche Telekom reduced tariffs for calls from fixed-network lines to T-D1 mobile phones in February 2000 and tariffs for calls in the regional and national zones in March 2000. In addition, the number of regional tariff zones has been reduced and off-peak periods have been lengthened. These measures are likely to result lower revenues per minute from domestic calls in 2000.

International Telephone Communications. Revenues from call charges for international long-distance calls are a function of tariffs and the volume, duration and mix of outgoing international traffic. In general, international telephone traffic is influenced by trends in the telecommunications markets and other market developments as described above under the heading "—Dynamics Affecting Deutsche Telekom's Business".

On June 1, 1999 Deutsche Telekom significantly reduced its tariffs for long distance calls, in particular for calls to many European countries. See "Description of Business—Network Communications".

The volume of Deutsche Telekom's international outgoing traffic was 18.0 percent lower in 1999 than in 1998. This decrease was attributable to intense competition in Germany for international telephony traffic, principally on the basis of price. During 1999, competitors made significant gains in market share. The tariff cuts introduced in June 1999, together with the decrease in minutes from international calls during 1999, resulted in a 32.5 percent decrease in revenues from international calls in 1999 as compared to 1998. Revenues from international telephone services were 16.9 percent lower in 1998 than in 1997, primarily due to major tariff cuts implemented in March 1998 and, to a lesser extent, due to a decrease in volume brought about by the introduction of competition at the beginning of 1998.

Deutsche Telekom introduced a further reduction in tariffs for international calls on February 1, 2000, which is likely to result in a further reduction in revenues from international calls for 2000.

Carrier Services. Revenues from licensed service providers and carriers consist of charges paid by domestic and foreign carriers for access to Deutsche Telekom's network to carry calls placed by the customers of such carriers. In addition, domestic interconnection services revenues contain charges paid by other fixed network operators and mobile communications providers for specially tailored leased lines. In 1997 and prior years, revenues from domestic interconnections were generated only by the interconnection of domestic mobile phone networks to the fixed network operated by Deutsche Telekom. In the international area, revenues also include transit traffic carried on Deutsche Telekom's network.

The following table contains information concerning the development of revenues from licensed service providers and carriers.

	<u>Year ended</u> <u>December 31,</u>			<u>Year ended</u> <u>December 31,</u>	
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999/1998</u>	<u>1998/1997</u>
	(millions of euro)			(% change)	
Domestic interconnection services.....	2,098	829	310	152.9	167.6
International interconnection services.....	786	782	919	0.5	(14.9)
Carrier Services.....	2,884	1,611	1,229	79.0	31.2

In the fully liberalized German telecommunications market, the number of fixed network competitors that have to connect with Deutsche Telekom's network in order to terminate their customers' calls increased significantly in 1999, which brought considerable growth in traffic volume in the area of domestic interconnection services and corresponding growth in revenue. The continued expansion of the mobile communications market also contributed to the revenue growth in this area. Revenue growth in this area was not, however, sufficient to offset a corresponding decline in network communications revenues.

At the beginning of 2000, Deutsche Telekom implemented the new lower domestic interconnection rates established by the Regulatory Authority at the end of 1999. For further information on the new domestic

interconnection rates, see "Description of Business—Regulation." These new lower rates will slow down, to some extent, any further revenue growth that may occur in 2000 due to growth in the volume of domestic interconnection traffic carried on Deutsche Telekom's network.

Revenues from international interconnection services remained essentially constant in 1999, as growth in traffic and the effect of exchange rate movements offset a decline in settlement rates.

In 1998, revenues from domestic interconnection services increased considerably due to the large number of competitors that connected with Deutsche Telekom's network for the first time and, to a lesser extent, due to continued growth in fixed-to-mobile interconnection. Revenues from international interconnection services decreased by 14.9 percent in 1998, despite strong growth in traffic, due to a decline in international settlement rates. Exchange rate movements had no significant effect on revenues from international interconnection services in that year.

Data Communications. The main sources of revenue for data communications are the installation and monthly rental charges for domestic and international leased lines (including digital and analog leased lines), charges for data transmission services, and charges for managed networks and IT solutions customized to meet specific customer needs. The following table shows revenues from data communications for the periods indicated.

	Year ended December 31, ⁽¹⁾			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Managed Networks / ATM / IP (2)	1,920	1,546	1,062	24.2	45.6
Frame Relay / X.25	108	121	191	(10.7)	(36.6)
Leased lines, others	800	869	1,092	(7.9)	(20.4)
Data communications	2,828	2,536	2,345	11.5	8.1

(1) Beginning in 1999, revenues of Deutsche Telekom's subsidiary DeTeLine, previously accounted for under "other services", are shown under "data communications". Prior year figures have been restated in the amount of EUR 29 million for 1998 and EUR 19 million for 1997 to reflect this change.

(2) Excluding T-Online.

The most significant contributors to data communications revenues are managed networks, ATM and IP as well as leased lines for data communications and Deutsche Telekom's packet switched data transmission service based on the X.25 protocol.

In 1999, data communications revenues increased by 11.5 percent. This growth primarily reflects strong revenue growth in managed networks that resulted from an increase in the number of managed network customers, which was offset to some extent by a decrease in prices induced by competition. A decrease in revenues from X.25 data communications products was largely due to customer's migration to managed networks. ATM- and IP-based services are growing in importance as components of managed networks.

In 1998, data communications revenues increased by 8.1 percent, largely due to increased revenues from managed networks that resulted from increased marketing of these networks. The increase in managed network revenues was, however, partially offset by a decrease in traditional data communications revenues that resulted from competitive pressures on prices and from customer migration to higher value-added communications systems solutions.

Mobile Communications. Deutsche Telekom's mobile communications business area primarily reflects the activities of T-Mobil, Deutsche Telekom's German mobile communications subsidiary. Revenues of Deutsche Telekom's consolidated international mobile communications subsidiaries currently are reflected under the segment "International". The mobile communications business area generates revenues from installation charges, monthly access charges and call charges paid by direct subscribers, charges paid by independent service providers, and the sale of terminal equipment for mobile communications. Independent service providers purchase mobile communications services from T-Mobil at a discount, resell those services and bill subscribers directly at rates they set independently. Traffic charges (including those paid by independent service providers) accounted for approximately 69.3 percent of T-D1 revenues, which consists of traffic charges, setup and monthly access charges, but exclude revenues from sales of digital handsets in 1999 as compared to

68.6 percent in 1998. Monthly access charges and initial connection fees together accounted for approximately 30.7 percent of those revenues in 1999 and 31.4 percent in 1998. Tariffs for subscribers serviced directly by T-Mobil are set by T-Mobil, although they would be subject to possibly retroactive regulatory review if T-Mobil were deemed to have a dominant position in a relevant market, as described under the heading "Description of Business—Regulation—Special Requirements Applicable to Market-Dominant Providers".

The following table shows information concerning the development of revenues from mobile communications.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Initial connection fees	36	36	43	0.0	(16.3)
Mobile products	510	320	295	59.4	8.5
Monthly access charges	1,015	822	756	23.5	8.7
Call charges					
T-D1	2,218	1,639	1,173	35.3	39.7
T-C-Tel	73	133	188	(45.1)	(29.3)
Other mobile communications services	67	111	118	(39.6)	(5.9)
Mobile Communications	3,919	3,061	2,573	28.0	18.9

Revenues from mobile communications increased in 1999 and 1998 as a result of continued growth in the number of T-D1 subscribers. The average number of T-D1 subscribers rose by 63.9 percent in 1999 and 58.4 percent in 1998, in part because of the continuing positive response to the private customer oriented tariff options offered by Deutsche Telekom to attract new customer groups. Revenue growth did not keep pace with subscriber growth, however, due in part to an increase in the proportion of subscribers that use prepaid tariff packages and due in part to a decline in revenues per minute, both of which contributed to a decrease in revenues per subscriber. Overall T-Mobil revenues were adversely affected by expected declines in the number of subscribers to Deutsche Telekom's analog T-C-Tel mobile service and by special terms offered to T-C-Tel customers to encourage migration to T-D1 service. Revenues from sales of mobile handsets, which are included in other mobile communications services and products, increased by 59.4 percent in 1999 to EUR 510 million and by 8.5 percent in 1998 to EUR 320 million due to the continued strong subscriber growth in the mobile communications market. Mobile handsets generally are subsidized in order to create attractive package offers for new customers.

Broadcasting and Broadband Cable. Revenues from broadband cable are generated principally from installation charges and monthly subscription fees paid by cable television customers directly served by Deutsche Telekom, and transmission charges paid by local cable companies in which Deutsche Telekom holds at least a minority equity stake or by other private cable operators. In addition, revenues are generated from cable transmission fees paid by television and radio stations for transmitting their programs via Deutsche Telekom's cable network. Broadcasting revenues result from fees paid by television and radio stations for the use of transmission capacity. The following table provides information concerning revenues generated by broadcasting and broadband cable.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro, except as noted)			(% change)	
Broadband cable	1,441	1,353	1,178	6.5	14.9
Broadcasting	476	451	419	5.5	7.6
Broadcasting and broadband cable	1,917	1,804	1,597	6.3	13.0
Average number of cable television subscribers (in thousands of households) (1)	17.8	17.5	17.0	1.7	2.9

(1) Includes households connected through operators of private broadband distribution equipment and master antenna television systems.

In 1999, broadband cable experienced a moderate increase in revenues, due in part to growth in the average number of cable television subscribers and in part to an improvement in billing procedures. This increase in revenues was also due in part to the fact that an increase in monthly subscription rates for cable television as of

November 1997 did not immediately result in higher effective rates for all subscribers because a number of subscribers had prepaid for cable television services prior to November 1997. As a result, these customers did not begin paying at the higher rates until the end of the period covered by their prepayments. In 1998, the increase in broadband cable revenues was principally due to the effect of the increase in the monthly subscription fees which came into effect in November 1997 and due to a modest increase in the average number of cable subscribers in 1998.

Deutsche Telekom is currently pursuing the sale of majority interests in nine regional companies within Germany that are to be formed during the year 2000, in which the core of Deutsche Telekom's cable business will be placed. Agreements to sell majority ownership of two of the regional companies have been concluded. As majority interests in these businesses are sold, revenues of these regional companies will cease to be consolidated in the financial statements of the Deutsche Telekom group, and these companies will instead be accounted for at equity.

Terminal Equipment. Revenues from terminal equipment consist of revenues from the sale and rental of terminal equipment for the fixed network. The following table provides information on the development of these revenues over the last three years.

	Year ended December 31, ⁽¹⁾			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Sales revenues.....	458	483	482	(5.2)	0.3
Leasing revenues.....	749	899	1,035	(16.7)	(13.1)
Terminal equipment.....	1,207	1,382	1,517	(12.7)	(8.9)

(1) In 1999, revenues relating to maintenance services are accounted for under "other services". To reflect this change, revenues of EUR 120 million for 1998 and EUR 129 million for 1997 have been transferred to "other services".

Revenues from terminal equipment declined in 1999 for the third consecutive year. Revenues fell considerably in 1999 as a result of a further reduction in the number of leasing contracts. In the terminal equipment sales business, revenues decreased largely due to decreases in prices for terminal equipment. See "Description of Business—Supply and Service of Terminal Equipment".

In 1998, revenues from terminal equipment were also negatively affected by the streamlining of the product portfolio and by a decline in leasing revenues, particularly from analog terminal equipment. These effects were partially offset by an increase in sales revenues, particularly from sales of PBX and terminal equipment for ISDN lines.

Value-Added Services. Revenues from value-added services include revenues from public telephones, toll free lines, information services, telephone directory publishing, and other directory and operator services. The following table sets forth revenues from value-added services for the periods indicated.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Value-added services.....	1,903	2,051	2,001	(7.2)	2.5

Decreases in revenues from public telephones and operator services accounted for most of the decline in revenues from value-added services in 1999, although these decreases were partially offset by increased revenues from information services. Revenues from public telephones decreased in 1999 because Deutsche Telekom reduced the number of public telephones as part of a site-optimization program and reduced tariffs for public telephones, largely to adjust for falling tariffs for mobile phone calls, which displace public phones. The average number of public telephones declined from 157,000 in 1998 to 138,000 in 1999. Revenues from operator assisted services, such as directory services, also decreased in 1999 due to increased competition and also due in part to the increased availability of Deutsche Telekom online directories.

In 1998, revenues from value-added services increased as a result of the growth in traffic and revenues from toll-free and information services lines. In addition, revenues from value-added services benefited from price

adjustments for operator services that became effective in November 1997. These effects were partially offset, however, by declining revenues from public telephones. The number of public telephones declined from 163,000 in 1997 to 157,000 in 1998 as part of the site-optimization program.

Other Services. Revenues from other services include revenues generated from multimedia communications, especially T-Online. They also include revenues from support services and ancillary activities performed by Deutsche Telekom. In 1998, revenues resulting from billing on behalf of competitors were recorded under "other services". In 1999, these amounts were no longer recorded under this line item, and 1998 figures have been restated to eliminate these amounts. For further information on this topic, see "—Results of Operations—Net Revenues."

	Year ended December 31, (1)			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Multimedia platform	412	294	215	40.1	36.7
Multimedia-applications	135	1	2	13400.0	(50.0)
Other	575	477	365	20.5	30.7
Other services	1,122	772	582	45.3	32.6

(1) In 1999, revenues of Deutsche Telekom's subsidiary DeTeLine are no longer shown under "other services". These revenues, in the amount of EUR 29 million for 1998 and EUR 19 million for 1997, are now shown under "data communications". Revenues relating to maintenance services of EUR 120 million for 1998 and EUR 129 million for 1997 were shown under "terminal equipment" in 1998. In 1999, maintenance services are accounted for under "other services". As of January 1, 1999, revenues from billing for other network competitors of EUR 0.5 billion are no longer shown as revenues from "other services" and goods and services purchased. As of January 1, 1999, T-Online does not show under revenues and services purchased amounts billed for content providers (EUR 53 million for 1998 and EUR 34 million for 1997). Prior year figures have been restated to reflect these changes.

In both 1999 and 1998, the revenue increase from other services was principally due to continued revenue growth at T-Online, shown as part of the line item "multimedia platform", which increased its revenues from EUR 189 million in 1997 to EUR 252 million in 1998 and to EUR 412 million in 1999. T-Online revenues for 1998 and 1997 that were reported in prior years were higher than the figures reported for those years in 1999 because amounts billed for content providers are no longer included in T-Online revenues in 1999, and figures reported in prior years have been restated to reflect this change. In both 1999 and 1998, revenues from T-Online services principally benefited from growth in the number of subscribers, although this growth was partially offset by price reductions implemented by T-Online. The increase in other revenues in both years is also partially attributable to increased revenues from billing services for our competitors, which represents the difference between the amounts collected for and the amounts paid over to our competitors in accordance with applicable regulations. A significant increase in revenues from the sale of multimedia applications to business customers also contributed to the increase in other services revenues from 1998 to 1999.

International. Revenues from international business consists of the revenues of Deutsche Telekom's foreign subsidiaries. These principally reflect the revenues of MATÁV and, in 1999, the revenues of max.mobil. and One 2 One, which were included for the first time in Deutsche Telekom's group of consolidated companies in 1999. max.mobil., which was first consolidated as of January 1, 1999, contributed EUR 811 million to consolidated revenues in 1999, while One 2 One, which was first consolidated on October 1, 1999, contributed EUR 544 million.

MATÁV's contribution to Deutsche Telekom's consolidated revenues increased to EUR 1.5 billion in 1999 from EUR 1.4 billion in 1998 and EUR 1.2 billion in 1997. In each year, the increases were primarily due to the increase in access lines and mobile subscribers in Hungary.

Changes in Inventories and Other Own Capitalized Costs

Deutsche Telekom's statement of income is prepared on the total-cost basis typically used in Germany. Costs to be capitalized and expensed in future periods, such as increases or decreases in inventories and interest and other costs capitalized on construction projects, are classified in the statement of income as revenues. A

corresponding amount is included in expenses such that the net effect is zero. The following table sets forth information concerning the changes in inventories and other own capitalized costs.

	<u>Year ended</u> <u>December 31,</u>			<u>Year ended</u> <u>December 31,</u>	
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999/1998</u>	<u>1998/1997</u>
	(millions of euro)			(% change)	
Increase (decrease) in inventories of finished products and work in process and other own capitalized costs	947	990	1,514	(4.3)	(34.5)

Own capitalized costs, which include mainly planning and construction costs incurred, decreased by approximately EUR 218 million from 1998 to 1999. The effect of this decrease in own capitalized costs was, however, largely offset by an increase in inventory resulting primarily from the change in composition of the group (particularly the acquisition of One 2 One) and increased inventories of Deutsche Telekom's research and development and real estate subsidiaries.

The relatively high level of inventories and own capitalized costs in 1997 as compared to 1998 reflected own capitalized costs relating to construction activity associated with the digitization of Deutsche Telekom's network. The digitization of the network was completed in 1997, and, as a result, own capitalized costs were significantly lower in 1998. This decrease in own capitalized costs was partially offset by an increase in inventories in 1998.

Other Operating Income

Other operating income consists of tax refunds, reversals of allowances and accruals, cost reimbursements, gains from sales of assets and other miscellaneous items. The following table provides information concerning other operating income.

	<u>Year ended</u> <u>December 31,</u>			<u>Year ended</u> <u>December 31,</u>	
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999/1998</u>	<u>1998/1997</u>
	(millions of euro)			(% change)	
Other operating income	1,871	2,069	1,915	(9.6)	8.0

Certain VAT refunds obtained pursuant to the Value-Added Tax Act (*Umsatzsteuergesetz*) are included in other operating income. Deutsche Telekom is entitled to recover a portion of the VAT incurred on assets purchased and placed into service before January 1, 1996, the date on which Deutsche Telekom became fully subject to VAT. Accordingly, Deutsche Telekom recognized VAT refunds of EUR 379 million in 1999, EUR 655 million in 1998, EUR 664 million in 1997 and EUR 775 million in 1996. Deutsche Telekom expects to reclaim a total of approximately EUR 2.7 billion over 10 years (from 1996 onwards), including the EUR 2.5 billion reclaimed since 1996. VAT paid on construction in progress and inventory purchased prior to January 1, 1996 was booked as expense in the year paid. Since January 1, 1996, the VAT paid in prior years with respect to those assets has been recognized as operating income at the time those assets were placed into service.

In 1999, other operating income decreased by 9.6 percent, partly due to the decrease in VAT refund recognized in 1999 and partly due to the effect of a one-time disposition of non-current assets in 1998. The overall decline in other operating income was partially offset by income from a national roaming agreement between T-Mobil and VIAG Interkom and by an increase in reversals of allowance and accruals.

In 1998, other operating income increased by 8.0 percent. This increase resulted principally from a one-time disposition of noncurrent assets of EUR 146 million related to the capital restructuring of Deutsche Telekom's satellite investment SES Société Européenne des Satellites S.A. Other operating income also reflected a reduction of reversals of accruals of EUR 87 million as well as an increase in reversals of valuation adjustments of accounts receivable and doubtful accounts.

Total Operating Costs and Expenses

The following table shows Deutsche Telekom's total operating costs and expenses broken down by major components.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Goods and services purchased	8.404	6.223	6.171	35.0	0.8
Personnel costs	9.210	9.170	9.377	0.4	(2.2)
Depreciation and amortization	8.466	9.037	9.509	(6.3)	(5.0)
Other operating expenses	6.135	5.385	5.195	13.9	3.7
Total operating costs and expenses	<u>32.215</u>	<u>29.815</u>	<u>30.252</u>	8.0	(1.4)

Goods and Services Purchased. The following table provides information concerning goods and services purchased.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Goods purchased	2,625	1,571	1,508	67.1	4.1
Services purchased					
Domestic network access charges	1,585	968	801	63.7	20.8
International network access charges	1,626	1,408	1,621	15.5	(13.1)
Total network access charges	3,211	2,376	2,422	35.1	(1.9)
Other services purchased	2,568	2,276	2,241	12.8	1.6
Total goods and services purchased.....	8,404	6,223	6,171	35.0	0.8

The increase in goods purchased of EUR 1.1 billion in 1999 resulted primarily from the consolidation of max.mobil. and One 2 One for the first time in 1999 and from increased purchases of mobile handsets for resale. In 1998, goods purchased increased by EUR 63 million. This increase was largely attributable to increased purchases of mobile handsets for resale.

Domestic network access charges rose in 1999 by 63.7 percent. This increase resulted from the growing number of calls initiated by Deutsche Telekom's fixed network and mobile customers and terminated in the networks of other fixed and mobile network operators in Germany. In 1998, the increase in domestic network access charges resulted mainly from increasing numbers of calls placed from Deutsche Telekom's fixed network to customers of other German mobile communications operators.

International network access charges increased in 1999 by EUR 218 million, primarily due to increased roaming charges for calls made by mobile phone subscribers of T-Mobil, max.mobil. and MATÁV to foreign telephone network operators.

International network access charges declined in 1998 by EUR 213 million principally as a result of the continued decline in international settlement rates and from a decrease in Deutsche Telekom's international outgoing traffic. These effects were partially offset by higher expenses for mobile roaming services.

Other services purchased consist of telecommunications hardware and software, building and other maintenance expenses, energy and utility costs and costs for information services provided. In 1999, increased expenses for information services provided accounted for most of the 12.8 percent increase in other services purchased. A corresponding increase in revenues from information services was recorded as revenues of the "value added services" business area. Maintenance expenses also increased in 1999 largely due to preparations for year 2000 risks. In 1998, expenses for other services purchased increased by EUR 35 million, also primarily as a result of increased costs for information services provided and increased maintenance expenses relating to the preparations for the year 2000 and the introduction of the euro.

Personnel Costs. The following table provides information concerning Deutsche Telekom's personnel costs and the annual percentage changes in those costs.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Wages and salaries	6,520	6,477	6,624	0.7	(2.2)
Other personnel costs (1)	2,690	2,693	2,753	(0.1)	(2.2)
Total personnel costs.....	9,210	9,170	9,377	0.4	(2.2)

(1) Other personnel costs consist primarily of social security costs, which are fixed by law generally as a percentage of wages and salaries, and of pension costs, principally for civil servant employees.

For several years, Deutsche Telekom has been taking measures to reduce its personnel costs, primarily through the implementation of a workforce reduction program. In 1999, Deutsche Telekom made further progress with

its workforce reduction program. For 1999, it employed an average number of 175,160 full-time employees in those companies that were part of the consolidated Deutsche Telekom group at the end of 1994, which was 10,580 fewer than the average number employed by those companies in 1998. Largely as a result of these personnel reductions, the average number of employees in the consolidated Deutsche Telekom group as a whole decreased to 204,360 in 1999 from 209,539 in 1998, despite the effect of the first consolidation of max.mobil. and One 2 One. The consolidation of max.mobil. starting as of January 1, 1999 accounted for an increase of approximately 2,500 in the average number of full-time employees of the consolidated Deutsche Telekom group during 1999, while the consolidation of One 2 One starting in October 1999 accounted for an increase in the average of approximately 1,000. As a result of the consolidation of max.mobil. and One 2 One, the consolidated Deutsche Telekom group as a whole, including companies first consolidated after 1995, had 203,268 employees, including trainees, as of December 31, 1999, an increase of 0.2 percent as compared to year-end 1998.

Personnel costs of Deutsche Telekom increased by 0.4 percent or EUR 40 million in 1999, as the effect of consolidating max.mobil. and One 2 One for the first time in 1999 partially offset the effect of workforce reductions in the companies that were part of the Deutsche Telekom group prior to 1999. The remainder of the increase in personnel costs resulted in part from a 3.0 percent increase in wages and salaries under collective bargaining agreements in Germany, which came into effect on April 1, 1999, and a remuneration adjustment related to salaries in eastern Germany. The growth in personnel costs was also attributable to age-related salary increases and to continued review of salaries in some areas to bring them in line with market conditions. Furthermore, the fixed annual contributions to a special fund for civil servant pensions, which was not linked to the number of employees covered in 1999, did not allow personnel cost to decrease in line with employee reduction.

In 1998, as a result of a reduction in the average number of full-time employees, personnel costs of Deutsche Telekom decreased by 2.2 percent or EUR 207 million. Personnel costs per employee increased, however, by 3.9 percent in 1998. This increase resulted in part from a 1.5 percent increase in wages and salaries under collective bargaining agreements, which came into effect on January 1, 1998, and a remuneration adjustment related to salaries in eastern Germany. The growth in personnel cost per employee was also attributable to the age-related salary increases and the review of salaries in some areas to bring them in line with market conditions. In addition, fixed annual contributions to a special fund for civil servant pensions, as mentioned above, together with a decrease in average number of employees, resulted in a nominal increase in personnel costs per employee in 1998.

Under agreements with the trade unions, differentials between salaries in western Germany and eastern Germany are to be gradually reduced until parity is reached in the year 2000. The cost of eliminating these differentials, which relate to less than 20 percent of Deutsche Telekom's workforce, has been and is expected to be less than EUR 61 million per year through the end of 2000. Wages and salaries for employees in eastern Germany increased on October 1, 1998 to 96 percent of the level paid in western Germany and again on October 1, 1999 to 100 percent of the western German level. The reduction of salary differentials between eastern and western Germany will not have any effect on personnel costs beyond 2000.

Under the law governing the privatization of Deutsche Telekom, Deutsche Telekom is required to make annual contributions to a special pension fund established to fund pension obligations to its civil servant employees. Through the end of 1999, Deutsche Telekom was obligated to make annual contributions of approximately EUR 1.5 billion. Beginning in the year 2000, however, Deutsche Telekom is obligated to make annual contributions equal to 33 percent of the salaries of its then-current civil servant employees (including the imputed salaries of civil servant employees on unpaid leave). For further information in this regard, see "Description of Business—Employees—Civil Servants". Deutsche Telekom therefore expects that its pension costs will start declining beginning in the year 2000.

Several years ago, Deutsche Telekom announced its intention to reduce its workforce by the end of the year 2000 by approximately 60,000 full-time equivalent employees (excluding employees of subsidiaries first consolidated after January 1, 1995) from 1994 year-end levels. The then expected total cost of these staff reduction measures (EUR 1.7 billion) was recognized as an expense in the years ended December 31, 1994, 1995 and 1996. The table below sets forth the development of provisions for these costs for the years ended December 31, 1999 and December 31, 1998.

	<u>Year ended</u> <u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
	(millions of euro)	
Accrual/payable, beginning of year	470	774
Payments made	(209)	(304)
Accrual/payable, end of year	<u>261</u>	<u>470</u>

Deutsche Telekom's provisions for restructuring costs cover employees that leave under voluntary separation agreements. Through December 31, 1999, a total of 57,200 full-time equivalent positions (excluding positions at MATÁV, max.mobil. and One 2 One) have been eliminated. Of the total planned reduction of 60,000 employees, Deutsche Telekom estimates that approximately 38,300 had left and will leave under voluntary separation agreements and the remainder under early retirement of civil servants and normal attrition.

Depreciation and Amortization. The following table sets forth depreciation and amortization and the percentage changes in this line item.

	<u>Year ended</u> <u>December 31,</u>			<u>Year ended</u> <u>December 31,</u>	
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999/1998</u>	<u>1998/1997</u>
	(millions of euro)			(percent change)	
Depreciation and amortization	8,466	9,037	9,509	(6.3)	(5.0)

In 1999, depreciation and amortization decreased by EUR 571 million. This decrease is largely due to an extension of the depreciation periods of outside plant network, which resulted from a new estimate of the physical and economic useful life of the equipment. This extension gave rise to a decrease in depreciation of EUR 0.8 billion from 1998 to 1999. The effect of this extension was partially offset, however, by the consolidation of max.mobil. and One 2 One for the first time in 1999, which resulted in an increase of EUR 0.4 billion in depreciation and amortization, particularly amortization of goodwill. Depreciation and amortization relating to One 2 One will be higher in 2000 than in 1999, as it will be included in the consolidated Deutsche Telekom group for a full year. One 2 One goodwill amortization is denominated in Pound Sterling and therefore will be affected by exchange rate movements. The implementation of Deutsche Telekom's internationalization strategy is likely to result in further increases in goodwill amortization in 2000 and future years. For further information in this regard, see "Description of Business—International."

An increase in net additions to intangible assets also partially offset the overall decrease in depreciation and amortization in 1999. This increase in net additions to intangible assets was largely attributable to increased capital expenditures for new software and to the fee that the Regulatory Authority required Deutsche Telekom to pay in October 1999 for telephone number blocks allocated to Deutsche Telekom prior to January 1, 1998. Deutsche Telekom has challenged the determination of the Regulatory Authority that this fee is payable. For further information regarding this fee, see "Description of Business—Regulation" and "Legal Proceedings."

In 1998, depreciation and amortization decreased by EUR 472 million, principally as a result of the completion at the end of 1997 of the shortening of the depreciation periods and corresponding acceleration of the depreciation of Deutsche Telekom's analog exchanges and transmission equipment. This effect was partially offset by increased depreciation and amortization for computer hardware and software.

Other Operating Expenses. Total other operating expenses increased by 13.9 percent in 1999 and by 3.7 percent in 1998. Other operating expenses increased in 1999 as decreases in losses on disposition of noncurrent accounts, in losses on accounts receivable and provision for doubtful accounts and in provisions were not sufficient to offset increases in marketing expenses, commissions and legal and consulting fees and in other expenses.

The following table sets forth other operating expenses broken down by major components and the percentage changes in those components.

	Year ended December 31,			Year ended December 31,	
	1999	1998	1997	1999/1998	1998/1997
	(millions of euro)			(% change)	
Marketing expenses, advertising gifts, commissions, legal and consulting fees	2,002	1,520	1,297	31.7	17.2
Losses on disposition of noncurrent assets	629	727	614	(13.5)	18.2
Losses on accounts receivable and provision for doubtful accounts	514	656	407	(21.6)	61.2
Provisions	238	298	531	(20.1)	(43.9)
Other expense items	2,752	2,184	2,346	26.0	(6.9)
Of which:					
Postal charges, postal and banking services and administrative expenses	635	596	633	6.5	(5.8)
Employee-related costs (including travel and temporary employment expenses)	591	562	554	5.2	1.5
Rental and leasing expenses	513	553	536	(7.2)	3.2
Other miscellaneous expenses	<u>1,013</u>	<u>473</u>	<u>623</u>	114.2	(24.1)
Total other operating expenses	<u>6,135</u>	<u>5,385</u>	<u>5,195</u>	13.9	3.7

In 1999, marketing expenses, advertising gifts, commissions, and legal and consulting fees increased by 31.7 percent, primarily as a result of increased marketing expenses and commissions. Marketing expenses of max.mobil. and One 2 One, which were consolidated for the first time in 1999, accounted for nearly half of this increase. The remainder of this increase is largely attributable to the mobile communications business area, which incurred significantly increased advertising expenses for T-D1 products, increased commissions for customer acquisition and additional expenses to encourage analog mobile phone subscribers to migrate to the digital T-D1 service.

In 1998, marketing expenses, commissions, and legal and consulting fees increased primarily as the result of promotional programs and advertising related to the introduction of Deutsche Telekom's mobile tariff offer TellyLocal and the XtraCard. These increases were in part offset by non-recurrence in 1998 of expenses related to a 1997 incentive program for ISDN.

Because of Deutsche Telekom's large noncurrent asset base and the rapidly changing technological environment in which it operates, parts of its noncurrent asset base become obsolete each year in the ordinary course of business. In 1999, losses on the disposition of noncurrent assets were 13.5 percent lower than in 1998, which resulted from higher scrapping of outside plant and other equipment in 1998, after the completion of the digitization of the network in 1997. In 1998, the scrapping of outside plant resulted in EUR 310 million of losses on disposition of noncurrent assets.

In 1999, losses on accounts receivable and provisions for doubtful accounts decreased as compared to 1998 primarily due to the absence in 1999 of unusual factors that had contributed to an increase in 1998. In 1998, losses on accounts receivable and provisions for doubtful accounts increased due to valuation adjustments of receivables which had been outstanding for some time and due to the fact that Deutsche Telekom wrote off receivables related to its Asian investments.

Provisions declined again in 1999, as compared to 1998, due to a perceived reduced need for provisions against risks in associated companies. Provisions in 1998 declined significantly, having been unusually high in 1997 due to a one-time effect. Accruals for costs were made in 1997 with respect to the reduction in Deutsche Telekom's space requirements resulting from the digitization of Deutsche Telekom's network and workforce reductions. These costs related to reconstruction costs necessary to adapt buildings to changes in use and to associated real estate costs.

Other expense items increased by 26.0 percent in 1999. Increases in postal charges, postal and banking services and administrative expenses as well as employee related-cost were due to an increased volume in mailings and in travel and transportation expenses. They were partially offset by decreased rental and leasing expenses. Other expense items declined by 6.9 percent in 1998 as a result of decreases in expenses for postal and banking services and other miscellaneous expenses.

Miscellaneous expenses shown in the table above include foreign currency transaction losses of EUR 275 million for 1999, EUR 105 million for 1998 and EUR 114 million for 1997. See note 7 to the consolidated financial statements. These losses were partially offset by foreign currency transaction gains of EUR 91 million for 1999, EUR 37 million for 1998 and EUR 12 million for 1997 included in "other operating income". These gains and losses result principally from exchange rate fluctuations between the dates when payables or receivables are booked in a foreign currency by Deutsche Telekom AG or by one of its subsidiaries and the dates on which corresponding amounts are actually debited or credited to bank accounts of Deutsche Telekom AG or one of its subsidiaries. The principal currencies that give rise to this type of gains and losses in the financial statements of Deutsche Telekom are U.S. Dollars and Hungarian forints. As a result of the acquisition of One 2 One, Pound Sterling may also give rise to this type of gains and losses in future periods. For further information on foreign currency translation, see "Summary of Significant Accounting Principles—Foreign currency translation" in the notes to the consolidated financial statements.

Financial Income (Expense), Net

The following table provides the components of Deutsche Telekom's net financial expense and annual percentage changes.

	<u>Year ended</u> <u>December 31,</u>			<u>Year ended</u> <u>December 31,</u>	
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999/1998</u>	<u>1998/1997</u>
	(millions of euro)			(% change)	
Results related to companies accounted for under the equity method.....	(265)	(382)	(778)	30.6	50.8
Other investments	(78)	56	31	(239.3)	78.7
Income (loss) from financial activities	(343)	(326)	(747)	(5.2)	56.2
Net interest expense	(2,546)	(2,962)	(3,256)	14.0	9.0
Financial income (expense), net.....	(2,889)	(3,288)	(4,003)	12.1	17.8

Net Interest Expense. Deutsche Telekom's net indebtedness increased during 1999 by EUR 2 billion to EUR 42 billion at year-end 1999 after having decreased by EUR 5 billion during 1998 to EUR 40 billion at year-end 1998. The increase in debt in 1999 is a result of the increase in liabilities to banks, mainly due to the changes in the composition of the Deutsche Telekom group resulting from the acquisition of One 2 One. Adjusted for this change in composition of the group, Deutsche Telekom reduced its debt by EUR 2 billion in 1999. In large part due to the reduction in debt during 1999 and 1998, net interest expense decreased by EUR 416 million in 1999 and by EUR 294 million in 1998. The effective weighted average interest rate applicable to Deutsche Telekom's bonds was 7.5 percent in 1999 and 7.6 percent in both 1998 and 1997. Increased interest revenue also contributed significantly to the decline in net interest expense in 1999 and 1998.

Income (Loss) from Financial Activities. Income (loss) from financial activities includes Deutsche Telekom's share of the income or losses on investments accounted for using the equity method. In addition, it includes the amount of annual amortization of goodwill, the difference between the original purchase price of these investments and Deutsche Telekom's share of the shareholders' equity. Income and loss from other investments consists primarily of dividends received from Deutsche Telekom's investments in various satellite service providers and from Sprint, as well as risk provisions for write-downs of the carrying amounts of other investments.

Deutsche Telekom's share of losses from investments in associated companies decreased by EUR 117 million in 1999. This decrease resulted principally from a reduction of EUR 75 million in goodwill amortization of Satelindo, due to the fact that goodwill of Satelindo was completely written off during 1998, and from a share of EUR 59 million in the profits of the Russian telecommunications company MTS, in which Deutsche Telekom acquired a significant stake in 1999. A decrease of EUR 33 million in goodwill amortization at TRI, which was attributable to reduced nonscheduled amortization, and improved financial results at Asiacom also contributed to the decrease in Deutsche Telekom's share of losses from investments in associated companies. These factors were, however, offset to some extent by a decrease in gains from other investments, decreased reversals of accruals for other investment and a decrease in Deutsche Telekom's share of gains in Satelindo. Deutsche Telekom's share of losses from Atlas (through which Deutsche Telekom and France Telecom held their interests in Global One) was EUR 220 million in 1999, relatively unchanged from 1998.